Economic and Revenue Outlook

Presented to
Association of Washington Business Lobby Lunch

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February 16, 2017 Olympia, Washington



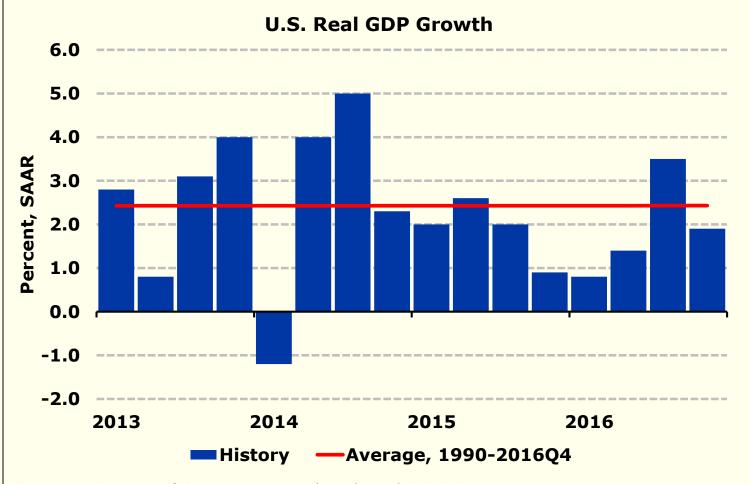
Forecast Summary

- The U.S. economy will continue to grow at a moderate pace
- The WA economy will continue to outperform the national economy
- The forecast assumes the Federal Reserve will increase interest rates twice during 2017
- Downside risks to the baseline include slow global and U.S. economic growth, the impact of a stronger dollar on exports, weak labor productivity growth, uncertainty regarding federal fiscal and trade policy
- Upside risks include stronger residential construction activity and stronger growth in wages



GDP growth in 3rd quarter was highest in two years, but dropped to 1.9% in 4th quarter

Q3 growth helped by likely one-time increases in export growth

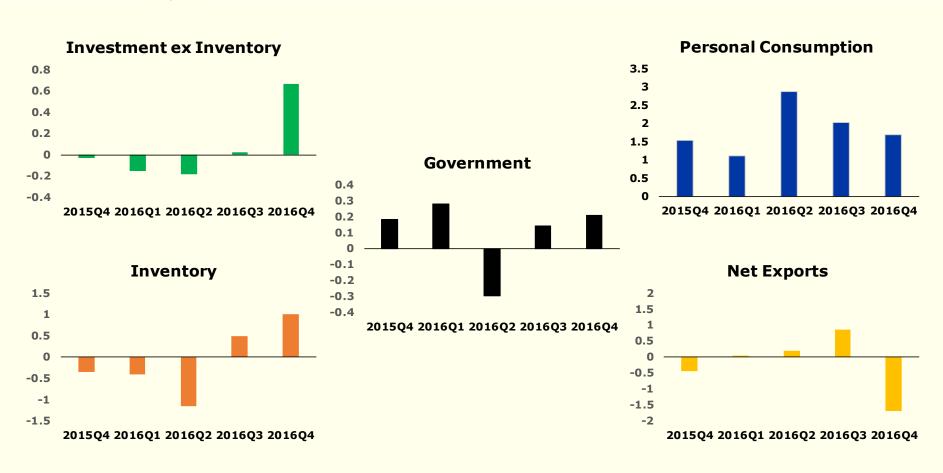


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Source: U.S. Dept. of Commerce, BEA, data through 2016 Q4



Contributions to percent change in real U.S. GDP



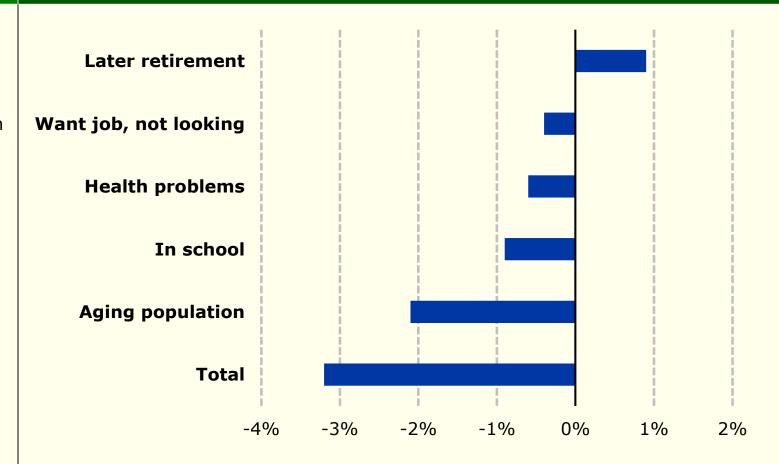
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Source: U.S. Bureau of Economic Analysis, data through 2016 Q4



Components of change in labor force participation rate, 2007Q4 to 2016Q4

Labor force participation rate = % of population age 16+ working or looking for a job



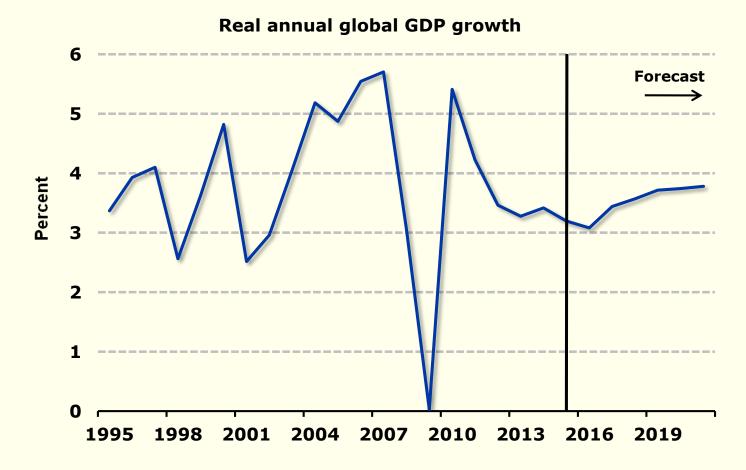
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Source: U.S. Bureau of Labor Statistics, Atlanta Federal Reserve



Global GDP growth has slowed, expected to gradually increase starting this year

Growth in previously fast-growing economies like China, Brazil, and South Africa has slowed



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Source: International Monetary Fund, October 2016; historical data through 2015



Washington exports: still declining, but at slower rate for non-transportation equipment goods

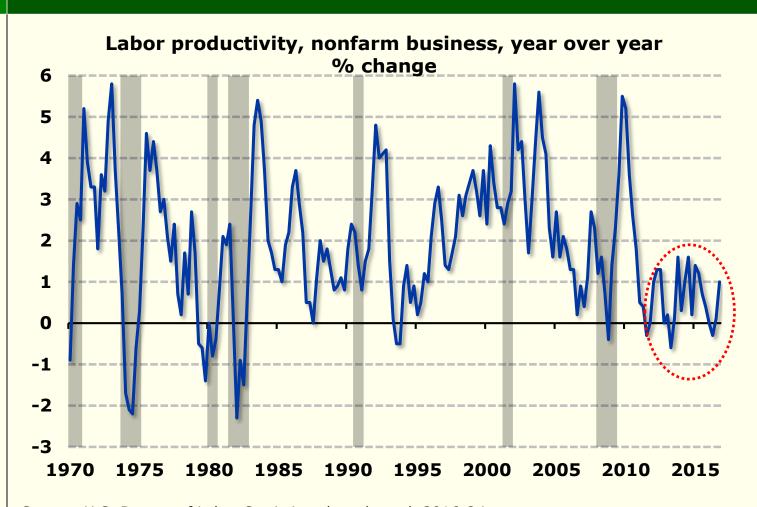


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Source: WiserTrade; data through 2016



Labor productivity growth has remained low since 2011

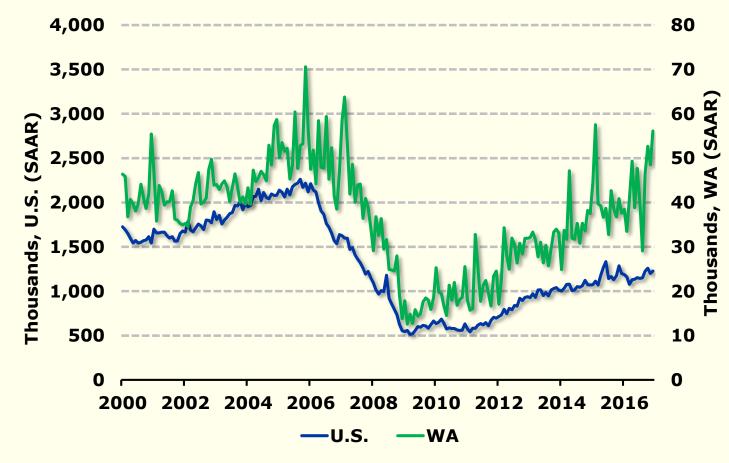


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Source: U.S. Bureau of Labor Statistics, data through 2016 Q4



U.S., WA housing permits trending up; U.S. remains below historical averages



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Source: U.S. Census Bureau, data through December 2016



U.S. real average weekly wages, private sector employees (1982-84 dollars)

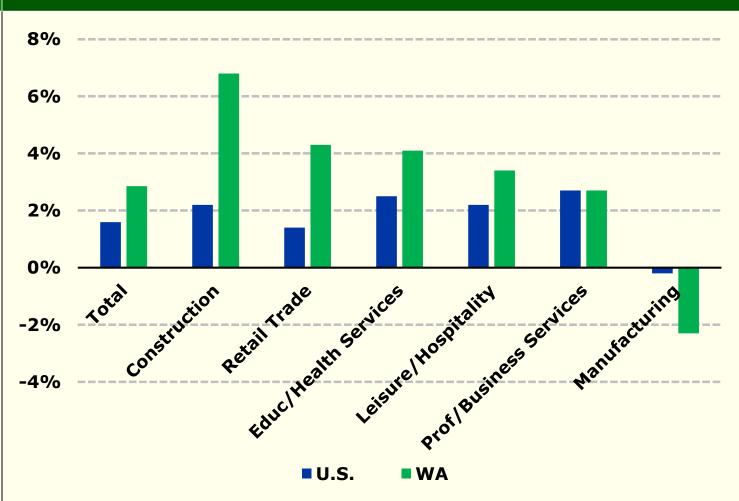


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Source: U.S. Bureau of Labor Statistics, data through December 2016



Washington vs U.S. employment growth: Dec. 2015 to Dec. 2016



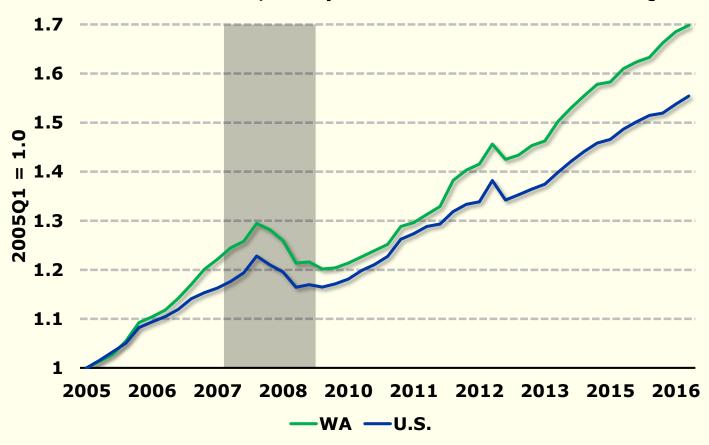
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Source: Employment Security Dept., ERFC; data through Dec. 2016



Personal income has been growing faster in WA than for U.S. as a whole

Growth in WA, U.S. personal income since 2005Q1



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Source: U.S. Bureau of Economic Analysis, data through 2016 Q3



The pace of recovery from the recession has been uneven

Tri-Cities employment never fell below its Feb. 2008 level

Metro area	First returned to Feb. 2008 employment	% change in employment, Dec. 2016 - Feb. 2008	
Tri-Cities	**	17.5%	
Seattle	June 2013	11.1%	
Wenatchee	June 2014	7.9%	
Olympia	January 2014	7.5%	
Tacoma	July 2014	7.2%	
Yakima	November 2014	5.0%	
Spokane	December 2015	3.5%	
Bellingham	January 2015	3.8%	
Bremerton	June 2015	1.6%	
Longview	June 2014	1.3%	
Mt. Vernon	January 2016	-0.2%	

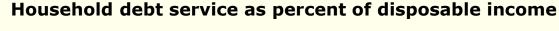
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Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept.



Household debt payments as a fraction of income have declined

Debt service includes mortgage, auto, student loan and other consumer debt payments





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Source: Federal Reserve Board, data through 2016 Q3



U.S. Leading Economic Index trending up but at slower rate

The LEI is an index of employment, housing, financial and other economic indicators that tend to indicate the direction of economic growth



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Source: Conference Board, data through December 2016



Consumer confidence: recent improvements slowed in January

Index

Mich: 1966Q1 = 100, SA Conf Board: 1985 = 100, SA



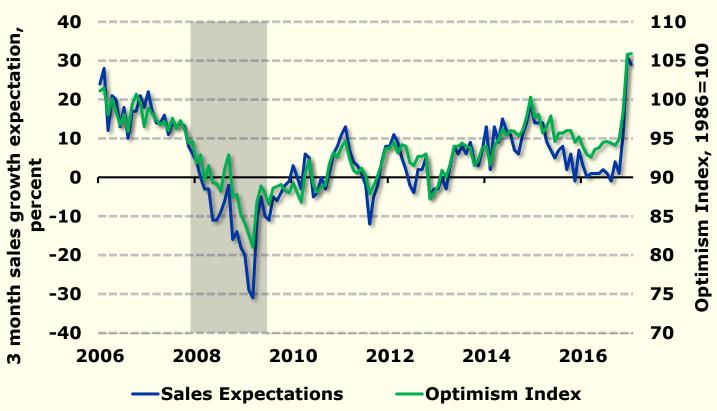
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Sources: University of Michigan, Conference Board; data through Jan. 2017



Small business optimism and sales expectations jumped in December, remain elevated in January





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Source: National Federation of Independent Business; data through January 2017



Real U.S. personal income is nearly identical to the September forecast

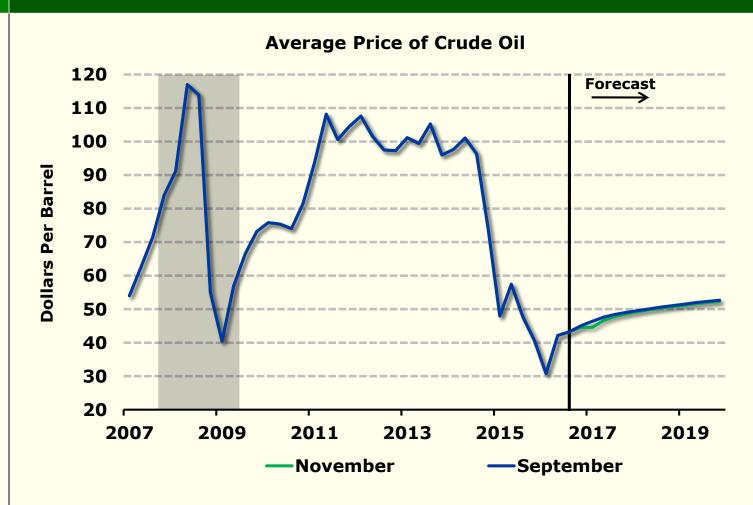


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Source: Global Insight, ERFC November 2016 forecast; historical data through 2016Q3



Oil prices are expected to gradually rise as in September



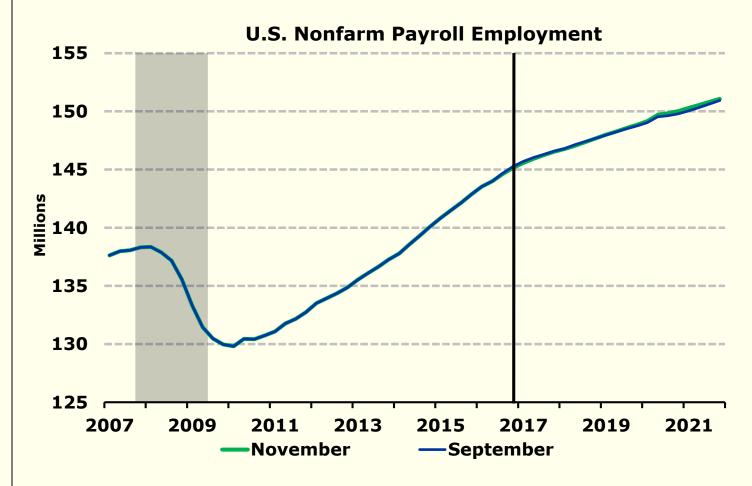
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Source: DOE, ERFC November 2016 forecast; historical data through 2016Q3



The U.S. nonfarm payroll employment forecast is nearly identical to September

Monthly employment growth averaged 187,000 in 2016 compared to 229,000 in 2015.



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Source: ERFC November 2016 forecast; data through Q4 2016



Washington personal income is slightly higher compared to the September forecast

Historic personal income data has been revised since the September forecast



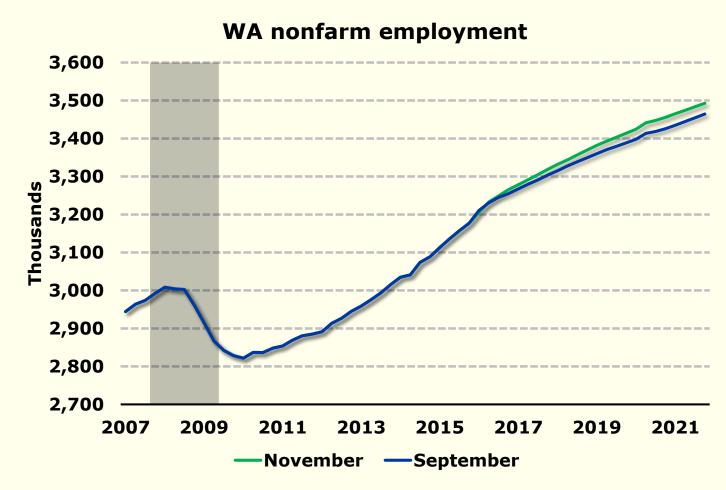


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Source: ERFC November 2016 forecast; historical data through 2015



WA employment was revised up slightly in the November forecast



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Source: ERFC November 2016 forecast; historical data through 2016Q3

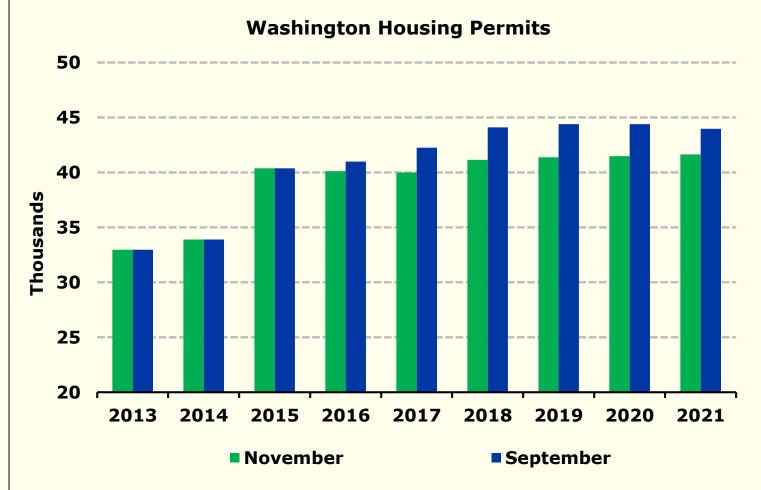


Washington housing permits forecast is weaker than in September

2017-21 average:

September: 43,800

November: 41,100

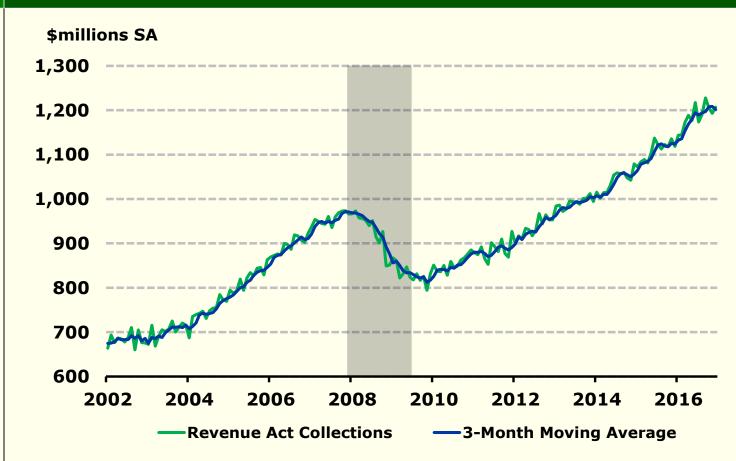


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Source: ERFC November 2016 forecast; historical data through 2015



Revenue Act collections growth still positive but trend has moderated



^{*} Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated Dec. 2016 activity (Feb. 2017 collections)

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Large commercial property sales slowed in January as other activity grew

Large commercial sales (>\$10 million) were \$2.1 billion in December and \$540 million in January.

Residential prices are still growing faster than sales volume.

Seasonally Adjusted Taxable Real Estate Excise Activity
SA



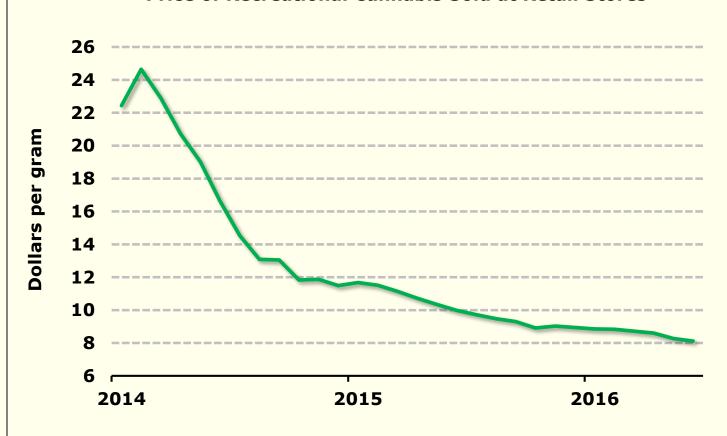
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Source: ERFC; Monthly data through January 2017 preliminary



Cannabis prices continue to slowly fall

Price of Recreational Cannabis Sold at Retail Stores



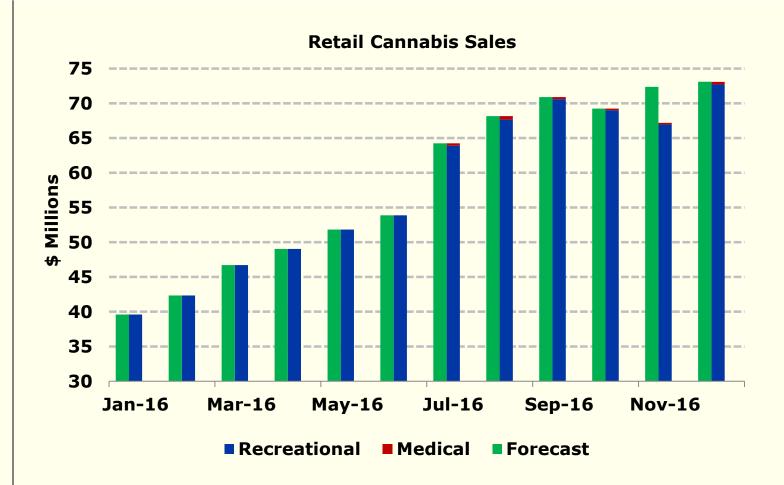
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Source: LCB, ERFC; data through December 2016



Cannabis revenue growth resumed in December

Medical marijuana became subject to the 37% excise tax on July 1, 2016



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Source: LCB, ERFC; data through December 2016



Forecast changes: General Fund State, 2017-2019 Biennium

September Forecast:

\$40,377 million

\$Millions	November Forecast				
	Non- economic Change	<u>Forecast</u> <u>Change</u>	<u>Forecast</u>	<u>Total</u> <u>Change</u> *	
Dept. of Revenue	\$0	\$131	\$38,428	\$131	
All other agencies	\$0	\$6	\$2,086	\$6	
Total GF-S	\$0	\$137	\$40,514	\$137	

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* Detail may not add to total due to rounding



Conclusion

- WA personal income and employment forecasts are slightly higher than in September; WA and U.S. housing are lower
- We continue to expect the WA economy to outperform the U.S. economy
- GF-S revenues are expected to grow 12.8% between the 2013-15 and 2015-17 biennia and 6.7% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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